

**PUBLIC HEARING**  
**ON B18-310, THE “NEW CONVENTION CENTER**  
**HOTEL AMENDMENTS ACT OF 2009”**

**Before the**  
**Committee on Economic Development**  
**Councilmember Kwame Brown, Chair**  
**and the**  
**Committee on Finance and Revenue**  
**Councilmember Jack Evans, Chair**

**Wednesday, June 24, 2009 11:00 a.m.**  
**Council Chambers**



**Testimony of**  
**Natwar M. Gandhi**  
**Chief Financial Officer**  
**Government of the District of Columbia**

Good morning, Chairman Evans, Chairman Brown and members of the Committees on Economic Development and Finance and Revenue. I am Natwar M. Gandhi, Chief Financial Officer of the District of Columbia Government. With me today is John Ross, Senior Advisor and Director in the Office of Economic Development Finance. It is our pleasure to be here today to discuss the financing plan for the Washington Convention Center Authority's (WCCA) planned headquarters hotel.

Before I begin, I would like to make it clear that this plan will not cause the District to postpone any projects that are already authorized, nor will it require any expenditures from the General Fund. In this testimony, I will describe the terms of the plan of finance for the hotel, and discuss the effect of the public portion of the plan on the District's debt service cap.

It has long been WCCA's contention that a headquarters hotel is necessary to exploit the full potential of the convention center. The convention center competes for business with a number of other major city convention facilities, most of which have existing hotels, or have approval to construct a hotel. (See Attachment A.)

We have been working with WCCA, the developers, Quadrangle Development Corporation and Capstone Development Corporation, and with Marriott International, Inc., which will be the hotel operator, throughout the planning process. The developers will team up with investors represented by ING Clarion, in a group to be known as HQ Hotel, LLC, and will own the hotel. We

are pleased that this project is now possible and ready to move forward expeditiously.

### **The Plan of Finance**

The proposed financing plan includes funding for \$537 million project costs. About \$331 million, or 62 percent of the funding will come from private sources and \$206 million, or 38 percent from WCCA. The table below summarizes the sources of funding:

<u>Source</u>	<u>Net amount (in order of contribution)</u>	<u>% of total</u>
1 Equity already in or expected next - private funding	30	6%
2 WCCA investment	50	9%
3 District/WCCA lease secured debt	22	4%
4 WCCA TIF secured debt	134	25%
5 Additional Equity or debt - private funding	<u>301</u>	56%
<b>Total Sources</b>	<b>537</b>	<b>100%</b>
<hr/>		
6 Total District/WCCA funding	206	38%
7 Total Owner funding	331	62%

The owners have already contributed \$10 million in planning, architectural drawings and other soft costs. This has brought the project to its current “shovel ready” position.

In addition, the owners will provide another \$20 million of funds for the next phase of the project which is the start of site preparation and construction.

Under the proposed plan, the WCCA will contribute \$134 million net proceeds

from a Tax Increment Financing (TIF). In addition to tax increment revenues from the hotel, those bonds will be secured by the Dedicated Taxes that the District already transfers to the WCCA for the convention center. By including the Dedicated Taxes as security, the bonds are expected to receive investment grade ratings and possibly be covered by bond insurance. In addition, if the project qualifies for funding from any of the bond programs in the federal stimulus Act, we will pursue that source of funding in order to minimize the net cost to the WCCA. In that regard, we may ask that the Council declare the area around the convention center as a Recovery Zone in order to qualify for the federal subsidy.

Another District/WCCA source of funding is a contribution of \$22 million, which is the net amount to be funded by the issuance of bonds secured by lease payments to be paid from the hotel owners to the WCCA and the District in the form of ground rent. In order to make these bonds marketable and credit worthy, they must be additionally secured by the WCCA's Dedicated Taxes.

The WCCA has reserved \$50 million cash on hand for the project.

I must point out here that in formulating the details of this plan as we move forward, it will be important to have as much flexibility as possible. There are constraints caused by the federal tax code and our own debt cap. We will work closely with WCCA and others to accomplish the goal of attaining the lowest possible cost of borrowing with the debt cap remaining of prime importance.

The final portion of the funding, \$301 million, will come from the owners of the hotel in the form of either equity or debt. Either is acceptable to the District. Although we now have agreement among the parties, all of these funding

sources will be laid out in detail and agreed to in the Development Finance Agreement (DFA). It is expected that this agreement will be finalized to reflect the new financing plan before the Council acts with the goal of beginning construction in September 2009.

### **Effect on the Debt Cap**

Each year, the OCFO has done a debt affordability study showing existing and projected debt service compared to projected expenditures. The trend has shown that District debt service is projected to claim a greater share of spending than in recent years. (See Attachment C.) Indeed, not since the Control period has the District experienced levels as high as the current projections.

We still face challenges in catching up from many years of neglect or inability to fund capital improvements. While it is very tempting to address these substantial needs through additional borrowing, to borrow too much could mean reversing the District's hard-earned gains. The District already has the highest per capita debt of any large city in the nation. Compared to the District's approximately \$9,700 per capita for all tax supported debt at the beginning of the current fiscal year, New York City's is approximately \$7,200, Chicago's is \$4,700, Boston's is \$1,600 and Baltimore's is \$1,200.

As a result, earlier this year, the District enacted a limitation on borrowing that prohibits Council from approving any debt that would cause total debt service on all tax-supported debt to exceed 12 percent of total General Fund revenues and transfers. The 12 percent level is slightly higher than the average for large cities, which was estimated at 11.5 percent by Moody's Investors Service. This limit is extremely important, particularly in these times of economic stress,

because in limiting the share of our budget that can go to pay debt service, it ensures that at least 88 percent of the budget is free for spending on operations and delivering services to residents. Our status as a state, a city, a county and a school district require that we have this 88 percent of budget unencumbered by debt service. For taking the action to limit borrowing, rating agencies praised the District for its fiscal prudence and sound financial practice.

As you know, when the funding plan ran into difficulty in the past several weeks, I was most concerned about financing the hotel with \$750 million public borrowing. No matter how we tried different structuring methods, it simply would not have fit under the debt cap given the new lower revenue estimates. Under the current plan of finance, and considering the lower projected spending that will result from the revenue re-estimate released two days ago, the project financing can be accommodated within the debt cap.

As I noted at the beginning of my testimony, this financing plan will not delay other projects that have already been authorized, which are shown on Attachment B. Projected debt service on those projects is already considered in calculating the debt cap ratio. Attachment C shows our projected debt service to expenditures for all outstanding debt plus approved projects, but excluding the hotel project. We have sufficient capacity to accommodate the estimated debt service required to fund the public share of the proposed project.

Another thing I wish to stress is that this project will not be paid from General Fund monies. The revenues supporting the two debt issues (the TIF bonds and the lease bonds) are expected to support the debt service on those bonds, and if

there is a shortfall, the WCCA's dedicated taxes will cover payments to investors.

## **Conclusion**

In conclusion, this financing plan is a fair, practical and workable arrangement that uses public and private financing to attain our goal of having a headquarters hotel connected to our convention center.

I commend you, Mr. Evans and you Mr. Brown for providing the leadership to get this hotel project to this point. Mayor Fenty, the City Administrator and the Deputy Mayor for Planning and Economic Development also were strong supporters. The WCCA Board, headed by Beverly Perry with the help of Jim Abdo and Mitchell Schear of the Board's finance committee, and General Manager Greg O'Dell were indefatigable in their efforts to find ways to finance the hotel. The result is, I believe, a good example of cooperation between public and private entities working to benefit both sides.

This concludes my remarks. I would be pleased to answer any questions you may have.

## ATTACHMENT A

### Convention Center Hotels

City	Cost	Public Subsidy	# of Hotel Rooms	Square Feet Meeting Space	Operator	Year Built
New York City	No headquarters hotel					
Orlando	\$380 M	None	1,400	130,000	Hilton	2009
Boston	\$200 M	None	800	32,000	Starwood/Westin	
Los Angeles		\$270 M	1,100	77,000	Marriot	2010
Las Vegas			3,174		Hilton	1969/ 2008 renovation
Las Vegas	\$100 M	None	548	32,000	Renaissance	2005
Chicago	\$108 M	\$108 M	800	55,000	Hyatt	1998
Denver	\$354 M	\$354 M	1,100		Hyatt	
Baltimore	\$305 M	\$305 M	752	46,700	Hilton	2008
Dallas	\$514 M	\$514 M	1,016	80,000	Omni	2012
Houston	\$626 M	\$626 M	1,200		Hilton	2003
Austin	\$265 M	\$15 M	800	60,000	Hilton	2004
St Louis	\$266 M	\$227 M	1,081		Marriot	2002
Nashville	\$300 M	\$145 M	1,000	100,000	Not awarded yet	2012
Charlotte	\$143 M	\$41 M	720	46,000	Starwood/Westin	2002
		<b>Average</b>	<b>1,107</b>			



**ATTACHMENT B**

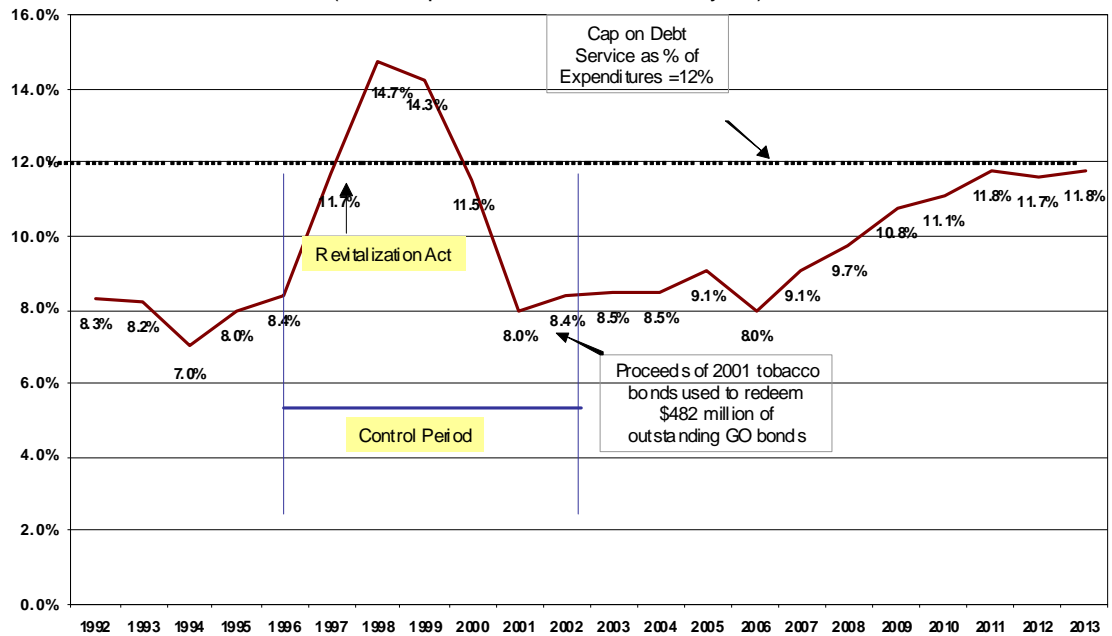
**Authorized/Expected TIF and PILOT Projects**

Downtown Retail Priority Area TIF (DRPA)	\$	16,050,000
Fort Lincoln Retail Priority Area TIF		10,000,000
Rhode Island Place Retail Priority Area TIF		7,200,000
Southeast Federal Center PILOT		30,000,000
Capper Carrollsburg PILOT		55,000,000
Radio One TIF		6,418,320
Great Streets Retail Priority Areas TIF		95,000,000
Southwest Waterfront		198,000,000
Arena Stage		10,000,000
O Street Market		46,500,000
Skyland Retail Priority TIF		40,000,000
	\$	<u>514,168,320</u>

**DEBT BURDEN AS A PERCENT OF EXPENDITURES  
REFLECTING JUNE REVENUE ESTIMATE AND EXCLUDING PROPOSED  
CONVENTION CENTER HOTEL**

# Growing Debt Burden

Debt Service as % of Expenditures  
(as of September 30 of each fiscal year)



Government of the District of Columbia  
Office of the Chief Financial Officer  
Natwar M. Gandhi, Chief Financial Officer

